



Payment of Medical Expenses Initial Consideration

LEOFF Plan 2 Retirement Board

December 16, 2009

Current Situation

- LEOFF Plan 2 pension fund pays survivor health care premiums directly to PEBB
 - Survivors of L2 members killed in the course of employment
- Benefits non-taxable in the nature of Workers' Compensation

Issue

- Federal law places a number of requirements on the payment of medical expenses out of a qualified pension plan in order for the payments to be non-taxed
- This may require establishing a 401(h) account

IRC 401(h) Account

- Separate sub-account of pension plan to pay non-pension benefits such as medical expenses
- Contributions and benefits are tax-free
- Several requirements under IRC

Additional Duties/Future Actions

- Coordination with DRS, WSIB, & OSA
- Interagency agreement
 - Establishing & Administering 401(h) account
 - Investment policy
 - Measuring and reporting assets/liabilities
- Contributions to 401(h)

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QUESTIONS?